

Why Raise Alcohol Excise Taxes to Protect Underage Youth? Evidence Supporting NAS Report Recommendations

Recommendation 12-7: Congress and state legislatures should raise excise taxes to reduce underage consumption and to raise additional revenues for this purpose. Top priority should be given to raising beer taxes, and excise tax rates for all alcoholic beverages should be indexed to the consumer price index so that they keep pace with inflation without the necessity of further legislative action.

(Reducing Underage Drinking: A Collective Responsibility, pg. 246)

In its report released on September 10, 2003, *Reducing Underage Drinking: A Collective Responsibility*, the National Academy of Sciences recommends increasing alcohol excises taxes to curb underage drinking. The report listed rationales for increasing the taxes. This fact sheet provides research evidence to support each reason.

1. “[U]nderage drinking imposes particularly high average social costs...”

- One study estimates the total economic cost of alcohol use by underage drinkers in America amounts to nearly \$53 billion a year. This includes more than \$29 billion in alcohol-related violent crime costs, over \$19 billion in traffic crashes, and over \$1.5 billion in suicide attempts (fatal and nonfatal). If this cost were shared equally by each congressional district, the amount would total more than \$120 million per district.¹
- Alcohol is a factor in the four leading causes of death among persons ages 10 to 24: (1) motor-vehicle crashes, (2) unintentional injuries, (3) homicide, and (4) suicide.²
- Young people who begin drinking before age 15 are four times more likely to develop alcohol dependence than those who begin drinking at age 21.³
- For college students, lower beer prices are related to higher incidences of troublemaking with police and other authorities, property damage, getting into an argument or a fight, and taking advantage of or being taken advantage of sexually.⁴

2. “[R]aising excise tax rates, and hence prices, is a strategy that has strong and well-documented prevention effects on underage drinking.”

- Young adults are more responsive to price increases than adults.⁵
- Beer prices inversely correlate with youths’ decisions to drink.⁶
- Frequency and quantity of underage alcohol consumption is inversely related to the price of alcohol.⁷
- In a survey of self-reported responses, high school students admit to reducing their overall alcohol use because of price increases.⁸
- Research shows that higher taxes increase the probability of attending and graduating from a four-year college or university. According to the study, raising the state beer tax from \$0.10 per case to \$1.00 per case would increase the probability of graduating from college by 6.3 percent.⁹
- College students are less likely to transition from abstainers to moderate drinkers or from moderate drinkers to heavy drinkers if alcohol prices are high.¹⁰
- The Centers for Disease Control and Prevention found that a beer-tax increase of 20 cents per six-pack would reduce gonorrhea rates by 8.9 percent and syphilis rates by 32.7 percent.¹¹
- Higher beer taxes are associated with lower rates of traffic fatalities. For every one percent increase in the price of beer, the traffic fatality rate declines by 0.9 percent.¹²

3. “[A] designated portion of the funds generated by the taxes can be earmarked for preventing and reducing underage drinking.”

- Nearly 82 percent of adults favor an increase of five cents per drink in the tax on beer to pay for programs to prevent minors from drinking and to increase alcohol treatment programs.¹³
- Few states are taking advantage of alcohol excise tax collections by earmarking revenues to pay for important treatment and prevention programs that, because of budget shortfalls, have been forced to make cuts.¹⁴
- A recent report found that 24 states earmarked the revenues from alcohol taxes and sales to various state programs in 1997. Some examples of programs to which the money went include public schools in Idaho, the school aid fund in Michigan, and health insurance programs in Oregon.¹⁵

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Myth:

Forty-four percent of the retail price of beer is now consumed by taxes.

Reality:

The "44 percent" calculation deceptively includes sales tax, federal income and payroll taxes, state and local income, payroll and other levies. The *federal* excise tax on beer amounts to about a nickel per drink -- less than seven percent of the average price of a six-pack. In fact, the relative cost of beer has declined dramatically in the past 50 years. Even with a Federal tax increase in 1991, the average price of beer has fallen by more than 25 percent relative to the Consumer Price Index. Had the tax kept up with inflation over the past 50 years, today's \$18 per-barrel tax would total approximately \$63.69, or \$1.15 per six-pack, more than three-and-one-half times the current rate.

Myth:

Middle and lower-income Americans, who comprise the vast majority of our nation's 90 million beer drinkers, cannot afford this tax on one of their few 'luxuries.' Those who indulge in the "luxury" of purchasing beer are now among the most heavily taxed people in our society.

Reality:

Producers are not concerned about "average" drinkers, because they know that most of their revenue comes from price-insensitive heavy drinkers. Heavy and addicted drinkers -- who account for most of the beer consumption in the U.S. -- rightly pay most in beer taxes since their drinking imposes the greatest costs on society. The heaviest-drinking five percent of beer drinkers consume 42 percent of reported beer consumption.¹ The moderate-drinking majority of drinkers consume, on average, relatively little alcohol and pay a negligible amount of alcohol taxes.

The Congressional Budget Office (CBO), in a 1990 report on tobacco, alcohol and gasoline taxes, found that expenditures on alcohol represented similar percentages of total family expenditures across income classes (among families that purchase alcohol). According to the CBO report, "The budget share for alcoholic beverages actually rises with adjusted family income: families in the lowest income quintile spend 1.5% of their budget on alcoholic beverages, while families in the middle income quintile spend 2.0% and families in the highest quintile spend 2.3%." The report further stated that, "These results suggest that, to the extent that annual family expenditures rather than annual family income better reflect lifetime income, *expenditures on alcohol are progressive*" (emphasis added).

If beer marketers are so concerned about low-income consumers, why do they continually raise prices on their own to increase profit margins? Last Fall, for example, Anheuser-Busch increased U.S. beer prices and recorded an 8.9 percent jump in fourth-quarter profits.

In fact, no one but the beer industry favors reducing beer taxes. Beer taxes are popular, and large majorities actually support *increasing* the tax. Nearly 82 percent of adults favor an increase of five cents per drink in the tax on beer to pay for programs to prevent minors from drinking and to increase alcohol treatment programs.²

Myth:

The 1991 increase in the Federal beer tax has destroyed 31,000 jobs, and has prevented people from enjoying the 'luxury' of beer drinking.

Reality:

Government data don't support the beer industry's exaggerated job-loss assertions. According to the Bureau of Labor Statistics, between 1990 and 2000, beer industry wholesale trade employment rose by more than 8,000 jobs, including increases between 1990 and 1992 (a year before and after the tax increase). Moreover, this job gain in the beer industry came during a period of significant job losses due to the 1990-1992 recession. In addition, even if job losses should occur in the beer industry, those jobs would not simply disappear, but would shift to other sectors of the economy.

Myth:

As a result of the 'luxury tax' on beer, \$463 million in wages has been lost in the brewing, wholesaling, and retailing industries. In addition, direct purchases of products needed to make beer, including agricultural products, have fallen by \$207 million.

Reality:

The beer industry has hardly been hurt by the 1991 excise tax increase. In fact, it is one of the few industries that is thriving despite a slumping economy. The industry recorded its sixth straight annual profit gain in 2001, according to *Adams Beer Handbook 2002*. Anheuser-Busch's stock rose seven percent during 2002 -- while the Dow Jones industrial average sank roughly 17 percent and had its worst yearly decline in a quarter-century (Anheuser-Busch produces almost half the beer sold in the U.S.).

Myth:

The 1991 increase in the Federal beer tax has not resulted in a doubling of Federal revenues. To the contrary: the decline in demand, the resultant loss of jobs, and the reduction of direct purchases has cost Federal and state governments hundreds of millions of dollars in lost tax revenues. The 'luxury tax' on beer has cost millions more in increased outlays for unemployment compensation and other social services to help those who were put out of work by the tax increase.

Reality:

These assertions are wildly exaggerated and not supported by any real evidence. Federal excise taxes on beer generated some \$1.7 billion in 1990, rising to \$3.55 billion in 2001. The beer market has increased, not decreased in the past decade, even as brewers have arbitrarily raised prices on their own to maximize profits. Furthermore, any decrease in sales and consumption would likely result in a decline in alcohol problems and significant savings in related health and safety costs (alcohol problems cost American society more than \$184 billion in 1998 in health care, criminal justice, social services, property damage, and loss of productivity expenses).³

Myth:

Because of the regressive nature of the 'luxury tax' on beer, its negative impact on the economy, and its unreliability as a source of Federal income, this 'luxury tax' should be repealed.

Reality:

Lower beer taxes would only add to the deficit, cater to a prosperous industry, reward and encourage heavy drinking, and attract more young drinkers, fueling increased alcohol problems and increasing public costs. The best interests of consumers, young people, and the public health and safety and the young people of America would be better served by raising, not lowering beer taxes.

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Alcohol Taxes in the U.S. are Low and Lag Far Behind Inflation

The relative cost of alcoholic beverages has declined dramatically in the past 50 years. Even with a federal tax increase in 1991, the average price of beer has fallen by more than 25 percent relative to the Consumer Price Index; the price of liquor has fallen almost 50 percent over the past five decades. The federal excise tax rates resulting from the 1991 tax increase are approximately \$0.05, \$0.035, and \$0.11 per drink of beer, wine, and liquor, respectively. These tax increases failed to account for the effects of inflation in the last half century. For example, the tax on distilled spirits would have to increase to approximately \$8.80 per fifth of 80-proof liquor (i.e., approximately four-fold higher) to have the same real value it had in 1951, the last increase before 1986. Similarly, the tax on beer would need to increase to \$1.15 per six-pack (from its current level of approximately \$0.33) to offset inflation since 1951.

Alcohol-Tax Increases Have Been Rare and Modest

The tax on distilled spirits remained at \$10.50 between 1951 and 1985, when it rose to \$12.50 per proof gallon. Under the *Revenue Reconciliation Act of 1990*, liquor taxes again went up in 1991 to \$13.50 per proof gallon, their current rate. Under the same Act, federal taxes rose for the first time in 40 years to \$18.00 per 31-gallon barrel of beer (up from \$9.00 per barrel) and \$1.07 per gallon of wine (up from \$0.17 per gallon).

Alcohol Tax Cuts Would Harm Public Health and Safety and Increase Underage Drinking

According to research reported by the National Institute on Alcohol Abuse and Alcoholism, increasing beer prices is an effective means of reducing alcohol problems. Higher alcohol taxes lead to reductions in the levels and frequency of drinking and heavy drinking among youth,¹ lower traffic crash fatality rates (especially among young drivers),² and reduced incidence of some types of crime.³ Logically, lower beer taxes will likely lead to higher levels and frequency of drinking among youth and add to traffic crash fatalities. Researchers at the National Bureau of Economic Research estimate that if alcohol taxes had kept pace with inflation since 1951, the number of youth who drink beer would have declined by 24 percent.⁴

Costs of Alcohol Use Already Far Exceed Alcohol Tax Revenue

The economic and social costs of drinking already far exceed alcohol tax revenues. Alcohol problems cost American society more than \$184 billion in 1998 in health care, criminal justice, social services, property damage, and loss of productivity expenses.⁵ Alcohol causes as many as 105,000 deaths annually in the United States⁶ and contributes to a wide array of health problems and human suffering. These include various cancers, liver disease, alcoholism, brain disorders, motor vehicle crashes, violence, crime, spousal and child abuse, drownings, and suicides.⁷

Federal tax revenues from alcoholic beverages totaled nearly \$7.7 billion in 2001.⁸ The brewing industry's proposed 50 percent beer-tax cut would rob the U.S. treasury of about \$1.75 billion each year, while the liquor producers' proposed 22 percent cut would cost the treasury an additional \$860 million.

Such cuts cannot be justified at a time when the federal deficit is projected to soar to near record levels of more than \$200 to \$300 billion in the next two years.

Most Drinkers Don't Drink Much and Alcohol Taxes Don't Burden Them

The top 20 percent of drinkers consume 85 percent of all alcoholic beverages.⁹ Therefore, the remaining 80 percent of moderate drinkers consume, on average, relatively little alcohol and pay a negligible amount of alcohol taxes. The federal excise tax falls on heavy drinkers who appropriately assume a greater share of the cost of problems caused by their drinking.

Public Opinion Does Not Support Alcohol Tax Cuts

By a two to one margin, Americans oppose rolling back the federal excise tax on beer, according to a 2001 national poll conducted for CSPI and MADD.¹⁰ The vast majority of Americans – 71 percent – would support *increasing* the national beer tax a few cents per bottle to equal the tax on liquor, if the funds were used for substance abuse prevention. The poll also found that 75 percent of Americans believe that a beer-tax cut would benefit the beer industry more than consumers. About 77 percent of *drinkers* agreed.¹¹

The Alcoholic-Beverage Industry Grossly Exaggerates the Economic Impact of Tax Increases

Brewers and distillers assert that alcohol tax increases would cause massive job losses and harms to their industries, and they wildly overstate "hardships" caused by the 1991 beer tax increase. Government data fail to support such claims. In fact, according to the Bureau of Labor Statistics of the U.S. Department of Labor, between 1990 and 2000, beer-industry wholesale trade employment *rose* by more than 8,000 jobs, including increases between 1990 and 1992 (a year before and after the tax increase). Jobs at the manufacturing level fell, but this decline began decades earlier, in response to producer consolidation and automation. Beer sales have grown steadily over the past 15 years, from \$40.2 billion in 1986 to nearly \$70 billion in 2001.

Producers Care about Profits, Not Consumers

Alcohol producers are prospering, and despite assertions that the tax cuts would lower prices for consumers, they have not hesitated to raise prices periodically to maximize their own profits. Producers aren't concerned about average drinkers, because they know that most of their revenue comes from price-insensitive heavy drinkers. While the U.S. economy sags, Anheuser-Busch continues to enjoy healthy profits. The company, which sells nearly half of all beer in the U.S., has had 17 straight quarters of earnings-per-share growth. Anheuser-Busch's stock rose 7 percent during 2002 — while the Dow Jones industrial average sank roughly 17 percent and had its worst yearly decline in a quarter-century.

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Death: 1,700 college students* die each year from alcohol-related unintentional injuries, including motor vehicle crashes.

(Hingson et al., 2005)

Injury: 599,000 students are unintentionally injured while under the influence of alcohol.

(Hingson et al., 2005)

Assault: More than 696,000 students are assaulted by another student who has been drinking.

(Hingson et al., 2005)

Sexual Abuse: More than 97,000 students are victims of alcohol-related sexual assault or date rape.

(Hingson et al., 2005)

Unsafe Sex: 400,000 students had unprotected sex and more than 100,000 students report having been too intoxicated to know if they consented to having sex.

(Hingson et al., 2002)

Young Drinkers: Each day, more than 5,400 kids in the United States under age 16 take their first drink.

(2005 National Survey on Drug Use and Health. J. Groer of the Substance Abuse and Mental Services Administration)

Health Problems/Suicide Attempts: More than 150,00 students develop an alcohol-related health problem (Hingson et al., 2002) and between 1.2 and 1.5 percent of students indicate that they had tried to commit suicide within the past year due to drinking or drug use.

(Presley et al., 1998)

Drunk Driving: 2.1 million students drove while under the influence of alcohol last year.

(Hingson et al., 2002)

Binge Drinking: 1 in 5 youth, ages 12 to 20, binge drinks (5 or more drinks on one occasion).

(Executive Summary, Underage Drinking in the United States: A Status Report, 2005. Center on Alcohol Marketing & Youth)

Most kids drink to get drunk: more than 90% of the alcohol consumed by 12 to 20-year-olds is when they are binge drinking.

(Executive Summary, Underage Drinking in the United States: A Status Report, 2005. Center on Alcohol Marketing & Youth)

Teenage girls who binge drink are up to 63% more likely to become teen mothers.

(Executive Summary, Underage Drinking in the United States: A Status Report, 2005. Center on Alcohol Marketing & Youth)

Alcohol Abuse and Dependence: 31 percent of college students met criteria for diagnosis of alcohol abuse and 6 percent for a diagnosis of alcohol dependence in the past 12 months, according to questionnaire-based self-reports about their drinking.
(Knight et al., 2002)

Each year, 1,700 college students die from alcohol-related, unintentional injuries, including motor vehicle crashes.
(Hingson et al. 2005)

More than 97,000 students are victims of alcohol-related sexual assault or date rape.
(Hingson, et al, 2005)

Each day, more than 5,400 kids in the United States under the age of 16 take their first drink.
(2005 National Survey on Drug Use and Health. J. Gfroerer of the Substance Abuse and Mental Health Services Administration)

*"Students" refers to people between the ages of 18 to 24.

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